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UNCLAS SECTION 01 OF 02 COLOMBO 000584

SIPDIS

STATE FOR EB/MTA/MST AND SA/INS; MCC FOR D.NASSIRY AND  
E.BURKE  
SINGAPORE FOR FAA  
BANGKOK FOR TSA/SHARON WALLOOPILLAI  
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SIPDIS

E.O 12958: N/A  
TAGS: ECON FAIR CE  
SUBJECT: CIVIL AIR IN SRI LANKA 3 NEW CARRIERS

REF: COLOMBO 559

¶1. Summary: The Government of Sri Lanka (GSL) is taking some steps to liberalize civil aviation. The GSL has issued provisional licenses to three new airlines registered in Sri Lanka to operate international air services, although initially they will be restricted to Sri Lanka-India routes. Until now, the national carrier, Sri Lankan Airlines (SLA), was the only domestic carrier operating international flights. The new airlines hope to operate feeder services via Colombo. Their preparations to start operations with leased aircraft will see marked change in Sri Lankas airline industry. End Summary.

THREE LICENSES ISSUED

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¶2. In December 2005, the Civil Aviation Authority (CAA) issued three provisional licenses to operate international civil aviation services. The companies were required to have a minimum of 51% local ownership in order to be eligible for the licenses. EconOff met with the chief executive officers of Sri Lankan Airlines (SLA) and the three new airlines: Expo Air, Holiday Air and Deccan Aviation, to discuss the changes in the civil aviation sector. All three new companies come with substantial aviation experience. Expo Air is part of an established Sri Lankan company already into international air cargo services and domestic air services. The other two are joint ventures with foreign companies: Air Asia of Malaysia has a substantial stake in Holiday Air and Deccan Airways of India has a substantial stake in Deccan Aviation of Sri Lanka. These companies plan to utilize the financial status and other resources of their partners. All three airlines plan to lease aircraft.

FIRST ROUTES TO SECONDARY INDIAN CITIES

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¶3. Initially, the three companies have been granted rights to fly to India. But since all slots into the largest Indian cities except for Calcutta are already taken up by

SLA, initially the three airlines will fly to secondary South Indian cities. They hope that with the expansion of bilateral air services agreements, more large cities in India will open to them.

#### PRICING STRATEGIES

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¶4. According to Mr. A. Thowfeek, CEO of Expo and Mr. Suren Mirchandani, Director of Deccan Aviation, the two airlines plan to cater to expatriate Indians working in the Middle East, flying them from various South Indian cities to Colombo, which has connections to onward destinations in the Middle East. Although planning to offer no-frills services, Expo and Deccan do not plan to compete with SLA or other carriers based on price. (COMMENT: Flying out of India from airports SLA does not serve may be a sufficiently distinguishing factor for success. End Comment.)

¶5. In contrast, Holiday Air plans to distinguish itself as a low-price carrier. Holiday Air plans to offer tickets as cheap as \$10 and will utilize an internet-based reservations system. According to Mr. A. Ruzaik, CEO of Holiday Air, the airlines target market is anyone looking for a cheap deal. All three airlines plan to expand services to other destinations after the limited license period is over.

#### PRESERVING AN IMPECCABLE SAFETY RECORD OR GIVING SLA TIME?

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¶6. The new operators complain that licensing conditions are not very conducive to business. Initially CAA will issue provisional licenses to fly to India for six months on a trial basis. CAA argues that the new airlines need to ensure that Sri Lanka maintains its safety record in civil aviation. Sri Lankas national carrier, SLA, has a good flying record with no major accidents.

¶7. Even after more international routes beyond India are opened to the new carriers, India may remain the most lucrative sector for the airlines operating from Sri Lanka. Peter Hill, CEO of SLA (currently the fourth largest foreign carrier serving India), told EconOff that for domestic carriers the jewel in the crown is India. To help the civil aviation market grow, Sri Lanka-based airlines could bring the Indian diaspora back and forth between India and the Middle East and elsewhere via Sri Lanka.

¶8. The new carriers complain that although licenses are being granted, SLAs hold on Sri Lankas Bandaranaike International Airport and its ground services (including baggage handling and catering) enable SLA to keep an iron iron grip on the civil aviation market. (Comment: This could give SLA further undue advantage should licenses be granted for competing routes, since SLA could charge itself less for ground services while undercutting the competition should a price war ever erupt. End Comment.)

#### COMMERCIAL OPPORTUNITIES FOR US BUSINESS

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¶9. The operators plan to buy/lease aircraft, most likely short haul aircraft. Growth of the civil aviation market also presents significant business opportunity for US suppliers of civil aviation ancillary machinery and equipment.

THE NEXT STEPS BEFORE OPERATION

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¶10. Holiday and Expo Air have submitted detailed plans to CAA already. Deccan plans to confirm its interest in the licenses after a company review in early April. The airlines now need to provide route feasibility and CAA will do market feasibility studies before approving the proposed routes.

Comment

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¶11. The GSLs gradual liberalization of civil aviation could boost many sectors of Sri Lankas economy (tourism, transport, etc.) as well as provide significant commercial opportunities for US suppliers of civil aviation ancillary machinery and equipment as well as short-run aircraft leases or sales. It remains to be seen whether a sufficient market can be created for four Sri Lankan carriers (up from only one) flying internationally. The newcomers strategies depend in large part on whether they can exploit demand by Indian expatriates and migrant workers traveling to the Middle East, and to what extent they can capitalize on South Asias growing regional tourist market. At least until Indias overburdened primary airports expand their facilities faster than Indias demand for air travel increases, Sri Lanka may become another hub for Indian travelers.

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